

Message Text

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PAGE 01 STATE 028255

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DRAFTED BY ARA/BR:JSLATTERY:TR

APPROVED BY THE SECRETARY

ARA:WGBOWDLER

EB/FSE:PTYSON

INTERIOR:GMARKON (SUBS)

COMMERCE:BHUMPHREY (SUBS)

S/S:MR. SPRINGSTEEN

ARA/BR:RWZIMMERMANN

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FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA IMMEDIATE

INFO AMCONSUL RIO DE JANEIRO IMMEDIATE

C O N F I D E N T I A L STATE 028255

EXDIS

E.O. 11652: GDS

TAGS: EMIN, PFOR, ETRD, BR

SUBJECT: SECRETARY'S LETTER ON COAL

1. PLEASE DELIVER FOLLOWING LETTER TO FOREIGN MINISTER
SILVEIRA.

2. BEGIN TEXT: DEAR ANTONIO: AS I HAD PROMISED YOU IN MY
LETTER OF JAN. 7, WE HAVE LOOKED FURTHER INTO THE PROBLEM OF
SHORTAGES OF US COAL EXPORTS TO BRAZIL AND I WANT TO REPORT
TO YOU THE RESULTS OF OUR INQUIRIES.

3. MY STAFF HAS DISCUSSED THIS MATTER IN DEPTH WITH THE
HIGHEST LEVELS OF THE US COAL INDUSTRY, AS WELL AS WITH US
GOVERNMENT OFFICIALS IN WHOSE JURISDICTION THIS PROBLEM
FALLS. US SUPPLIERS AND THEIR INDUSTRY ASSOCIATIONS HAVE
ASSURED US THAT THEY HAVE MADE EVERY EFFORT TO DISTRIBUTE
CONFIDENTIAL

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PAGE 02 STATE 028255

AS EQUITABLY AS POSSIBLE THE LIMITED SUPPLIES OF HIGH-QUAL-

ITY COAL AVAILABLE AND THAT THE SHORTAGES EXPERIENCED BY BRAZIL WERE ALSO EXPERIENCED BY OTHER HOLDERS OF LONG-TERM CONTRACTS FOR HIGH-QUALITY COKING COAL.

4. OUR ANALYSIS SHOWS THAT 1974 WAS A YEAR OF BOTH EXTRA-ORDINARY DEMAND AND WIDE-SPREAD DIFFICULTIES IN THE US COAL INDUSTRY, NOT ONLY BECAUSE OF THE NOVEMBER COAL STRIKE BUT ALSO BECAUSE OF A SERIES OF UNAUTHORIZED WORK STOPPAGES PRIOR THERETO. COMPOUNDING THESE IMMEDIATE PROBLEMS WAS THE DECREASING PRODUCTIVITY TREND OF THE LAST SEVERAL YEARS, ESPECIALLY IN UNDERGROUND MINING, ARISING LARGELY FROM MORE STRINGENT HEALTH AND SAFETY LEGISLATION.

5. OUR INQUIRIES HAVE CONFIRMED OUR PREVIOUS TENTATIVE CONCLUSION THAT THERE IS NO EVIDENCE OF US SUPPLIERS DIVERTING COAL FROM THEIR LONG-TERM CONTRACTS WITH BRAZIL TO THE HIGHER-PRICED SPOT MARKET. IT IS CUSTOMARY FOR MOST LARGE COAL COMPANIES TO ACT AS SALES CHANNELS IN THE SPOT MARKET FOR SMALL COAL PRODUCERS WHO COME INTO PRODUCTION DURING PERIODS OF HIGH PRICES BUT HAVE NO SALES OR DISTRIBUTION ORGANIZATION OF THEIR OWN. CONSEQUENTLY, IT IS QUITE NORMAL TO FIND THAT A LARGE COMPANY WITH LONG-TERM OUTSTANDING CONTRACTS IS ALSO SELLING ON THE SPOT MARKET.

6. WITH REGARD TO PROSPECTS FOR THE FUTURE, I WANT TO TRANSMIT TO YOU AND TO THE BRAZILIAN STEEL SECTOR THE REPEATED ASSURANCES MADE BY HIGH OFFICIALS OF THE US COAL INDUSTRY OF THEIR STRONG DESIRE TO MAINTAIN CLOSE RELATIONS WITH THEIR BRAZILIAN CLIENTS, WHO PROVIDE THE US INDUSTRY WITH A VERY ATTRACTIVE MARKET. US COAL PRODUCERS ANTICIPATE AT THIS MOMENT THAT MORE ORDERLY PRODUCTION THIS YEAR WILL ALLOW THEM TO IMPROVE THEIR PERFORMANCE IN FULFILLING EXISTING LONG-TERM CONTRACTS.

7. I REGRET THAT THE TURMOIL IN THE US COAL INDUSTRY LAST YEAR AFFECTED BRAZIL ADVERSELY, BUT I WANT TO ASSURE YOU AGAIN THAT THE SHORTAGES EXPERIENCED BY BRAZIL WERE CAUSED BY UNEXPECTED INDUSTRY-WIDE DIFFICULTIES, AND WERE NOT IN ANY WAY THE RESULT OF DISCRIMINATORY ACTIONS
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PAGE 03 STATE 028255

AGAINST BRAZIL. AS I STATED IN MY PREVIOUS LETTER, THERE IS NO LEGAL AUTHORITY BY WHICH THE USG CAN FORCE PRIVATE FIRMS TO INCREASE EXPORTS TO ANY PARTICULAR COUNTRY. HOWEVER, I HOPE THAT SUPPLY CONDITIONS IN 1975 WILL PERMIT A MARKED IMPROVEMENT IN US COAL EXPORTS TO BRAZIL.

8. WITH WARMEST REGARDS, HENRY.
END TEXT.

9. IN PRESENTING SECRETARY'S RESPONSE, EMBASSY MAY WISH TO MAKE FOLLOWING POINTS ORALLY: A) A NUMBER OF OTHER COUNTRIES (NETHERLANDS, UK, FRG, JAPAN, EGYPT AND RUMANIA) HAVE MADE SIMILAR HIGH-LEVEL REPRESENTATIONS TO USG. US RESPONSE TO ALL THESE REPRESENTATIONS HAS BEEN THAT WE BELIEVE DISTRIBUTION OF LIMITED SUPPLIES OF HIGH-QUALITY COAL BY US COMPANIES WAS DONE ON EQUITABLE, PRO RATA BASIS. INFORMATION MADE AVAILABLE TO DEPARTMENT BY MAJOR US FIRMS CONFIRMS THAT BRAZIL RECEIVED APPROXIMATELY THE SAME PROPORTION OF LONG-TERM CONTRACTS AS OTHER PURCHASERS. HOWEVER, SINCE MOST FIRMS CONSIDER THIS INFORMATION TO BE CONFIDENTIAL, WE ARE UNABLE TO PROVIDE THIS DATA TO BRAZILIANS. B) ALTHOUGH US GOVERNMENT PROVIDES FRAMEWORK FOR COMMERCIAL RELATIONS WITH PRIVATE US PARTIES, USG CANNOT ENTER INTO GOVERNMENT-TO-GOVERNMENT COMMERCIAL ARRANGEMENTS (E.G. BARTER), AS MAY HAVE BEEN IMPLIED IN THIRD PARAGRAPH OF SILVEIRA'S LETTER. C) A NUMBER OF OTHER FOREIGN COUNTRIES EXPERIENCING DIFFICULTIES WITH SUPPLIES OF US COAL APPARENTLY HAVE DECIDED TO TAKE LONG-TERMS MEASURES AND ARE CONTEMPLATING EQUITY INVESTMENTS IN NEW US MINES. AT PRESENT THERE IS NO LEGAL PROHIBITION IN US AGAINST THIS.

10. TEXT OF REPLY TO BRAZILIAN AIDE-MEMOIRE OF DEC. 6 BEING SENT SEPTTEL. SINCE WE WOULD LIKE TO INFORM AMB. ARAUJO CASTRO IN WASHINGTON OF SUBSTANCE OF OUR REPLY AT SAME TIME AS DELIVERY OF AIDE-MEMOIRE IN BRASILIA, PLEASE INFORM US BY IMMEDIATE CABLE OF DELIVERY OF LETTER AND WAIT FOR PRESENTATION OF AIDE-MEMOIRE UNTIL 24 HOURS AFTER DELIVERY OF LETTER. KISSINGER

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